



Randall T. Abernathy
Vice President, Market Services

January 2, 2004

Mr. Tom Carter
Power Operations Manager
Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
Folsom, California 95630-4710

Dear Mr. Carter:

The California Independent System Operator ("ISO") appreciates the opportunity to provide comments on the Western Area Power Administration – Sierra Nevada Region's ("Western's") December 2, 2003 Notice of Proposed Decision in the Operational Alternatives for Post-2004 Operations (68 FR 67417) ("Proposed Decision") and particularly appreciates that Western has identified an option to remain within the ISO Control Area as one of its two final options. The ISO is fully committed to working with Western to develop the most responsive structure possible for Western, its customers, and the United States Bureau of Reclamation to facilitate Western's continued operation within the ISO Control Area. The ISO attempted in its formal comments on Western's Federal Control Area Plan for 2005 to describe the types of arrangements that the ISO and Western might implement to accommodate Western's interests, and the ISO stands ready to provide substantial additional detail regarding those arrangements or other options that may be discussed to demonstrate that the option of remaining within the ISO Control Area is the superior option available to Western. The ISO is eager to work with Western to develop arrangements to accommodate Western's decision-making criteria and other issues associated with a transparent public process that results in Western remaining within the ISO Control Area.

While the ISO appreciates Western's recognition of the potential viability of the ISO Control Area option in the Proposed Decision, the ISO has a number of significant concerns regarding other aspects of the Proposed Decision. The ISO considers the new option identified by Western in the Proposed Decision, the proposal to become part of the Control Area of the Sacramento Municipal Utility District ("SMUD"), particularly problematic. The ISO has two fundamental concerns with this new, alternative option - first, it does not appear to be appropriate for consideration in a Proposed Decision when it was not one of the alternatives offered for public comment in the prior phase of this process and the details of the proposal are unknown. Second, it suffers from substantially the same flaws as the Federal Control Area Plan for 2005 proposed by

Western. The ISO submitted comments on that proposal on August 8, 2003 pointing out the numerous issues and problems that would result from separating the Western electric system and facilities from the ISO Control Area. Attachment A details the ISO's additional concerns with both the SMUD Control Area option and other aspects of the Proposed Decision.

In the event Western chooses to proceed with negotiation of the two new options, the ISO believes that Western's customers and the public interest are best served by a completely transparent process in which the details of each option are published. Such an approach will ensure that all interested parties can make reasonable comparisons, fully understand the options, have the ability to adequately and fairly evaluate the options, and determine the impact upon all of California's electric customers. Secondly, the ISO believes that Western and its customers are best served if all potential issues associated with full compliance with Western Electricity Coordinating Council and North American Electric Reliability Council operating guidelines are resolved before a decision is made between the two remaining options. This will help assure that all costs and risks are identified and can be considered in the context of Western's adopted decision criteria.

We look forward to working with Western to develop fully the most responsive option possible for Western's operation within the ISO Control Area. I understand we have a meeting already set for January 6th. If we can be of assistance prior to then, please contact Deborah Le Vine at (916) 351-2144.

Kindest regards,

A handwritten signature in black ink that reads "Randall T. Abernathy". The signature is written in a cursive, flowing style.

Randall T. Abernathy
Vice President of Market Services